

POSTAL RATE COMMISSION

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EDWARD J. GLEIMAN  
CHAIRMAN

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

August 9, 2000

The Honorable William J. Henderson  
Postmaster General  
United States Postal Service  
475 L'Enfant Plaza, SW  
Rm. 10022  
Washington, DC 20260-0010

Dear Postmaster General Henderson:

The Commission is currently in the seventh month of its evaluation of the Postal Service Request for changes in rates and fees, Docket No. R2000-1. The Postal Service and interested members of the public have already presented their cases, and the evidentiary record in this case will close shortly, after the receipt of final rebuttal testimony. In response to Commission Order No. 1294, the Postal Service recently revised its cost projections to include audited fiscal 1999 results. At that time, the Service also was permitted to reflect events since the Request was prepared by updating the "cost change factors" used in its projections.

One aspect of that revision appears to reflect a significant change in Postal Service policy. Because of the importance of the change, and because the witness who sponsored the change could not assure the Commission that senior management authorized the change (and in fact could not recall who instructed him to incorporate it into his presentation), the Commission has determined to consult with you directly on this issue. The change regards the still to be negotiated wage increases that the Postal Service expects to pay in fiscal year 2001.

In Docket No. R87-1, the Postal Service presented testimony explaining that consistent with the Kerr Arbitration Award resolving labor negotiations in 1984, the Service had adopted the policy that changes in wage rates would be held at least one percent below the Employment Cost Index (ECI). It is the Commission's belief that the Postal Service has adhered to this policy since that case, and initial Postal Service projections of postal wage growth in our current case, presented by witness Tayman, continued to reflect the ECI-Minus-One policy.

However, the Postal Service supplemental testimony updating projections of 2001 costs to reflect recent events, without any explanation or justification, ignores the ECI-Minus-One policy and projects wage growth that matches the expected growth in ECI. The sponsoring witness was questioned to confirm that the Postal Service had changed its policy in this area but he was totally unable to do so. Tr. 35/16796 – 16800 (attached). He was unable to affirm that the Board of Governors, you, the Deputy PMG, or your chief financial officer had authorized, or was even aware of the implicit change in policy. He admitted that he had not attempted to learn whether Postal Service representatives in the upcoming labor negotiations would abandon the policy of wage growth one percent below ECI. Finally, he could not verify that his wage growth estimates were consistent with your stated policy to reduce Postal Service costs by \$1 billion a year.

During the period since the pending rate case was filed, the projected level of the Employment Cost Index has risen. The Commission expected to be informed of changes of this nature that might have to be incorporated into rate case cost estimates in order to achieve the most accurate measure of revenues needs, such as the larger cost of living adjustments that are included in the updated cost projections. However, if the Postal Service has abandoned the policy of limiting wage growth to ECI-Minus-One, this separate factor alone will increase Postal Service costs by hundreds of millions of dollars each year beginning in 2001.

The Commission determined to address you directly on this issue because of the important ramifications of the ECI-Minus-One policy, and the limited remaining time before the Commission will have to close the evidentiary record. Please review this situation and confirm whether or not the Postal Service has abandoned its longstanding ECI-Minus-One wage growth policy.

Thank you for your assistance with this matter. Consistent with the public nature of Commission rate proceedings, copies of this letter will be provided to the full service list in Docket No. R2000-1.

Sincerely,



Edward J. Gleiman  
Chairman

Enclosures

1 THE WITNESS: I don't think so. If that's where  
2 the question stops is in '99 in just DRI.

3 CHAIRMAN GLEIMAN: Well, let me turn now to a  
4 change that you made that I consider to be a change in  
5 policy.

6 In each rate case since the R87-1 docket the  
7 Postal Service has employed the assumption that changes in  
8 wage rates would be limited to at least one percent below  
9 the employment cost index -- this is ECI minus 1.

10 It was an assumption adopted by the Postal Service  
11 following the Kerr arbitration award in 1984.

12 In R87 Postal Service Witness Burdette explained  
13 that the Kerr arbitration award was premised in relevant  
14 part on the finding that Postal wages exceeded the  
15 comparability standard established in Section 1003 of the  
16 Act. He went on to state that the Kerr award recommended  
17 that the way to eliminate the wage premium was to limit wage  
18 growth to bargaining employees to one percent less than the  
19 growth in private sector wages. ECI measures growth in  
20 private sector wages. Thus, since the Kerr award Postal  
21 Service policy has been to obtain Postal Service wage  
22 increases limited to ECI minus 1.

23 Since that time rate case projections of Postal  
24 wage growth have always been below ECI and Postal Service  
25 Witnesses have always adhered to the rationale that Postal

1 wages exceeded the comparability standard.

2 In this case Witness Tayman presented Postal  
3 Service projections of Postal wage growth that continued the  
4 ECI minus 1 policy.

5 Now for the first time since R87 in your update  
6 you have abandoned the rationale that Postal wages exceed  
7 the comparability standard and deviated from the ECI minus  
8 something method of estimating wage changes.

9 I have some questions about this change.

10 First, did you brief the Board of Governors on  
11 this change and did they authorize you to abandon the  
12 position that Postal wages exceed the comparability  
13 standard?

14 THE WITNESS: I don't know what the Board was  
15 briefed on.

16 CHAIRMAN GLEIMAN: You did not brief the Board?

17 THE WITNESS: I did not.

18 CHAIRMAN GLEIMAN: And you don't know if the Board  
19 was briefed on this?

20 THE WITNESS: That's true.

21 CHAIRMAN GLEIMAN: Did Postmaster General  
22 Henderson direct you to change the method of estimating wage  
23 growth?

24 THE WITNESS: Not directly.

25 CHAIRMAN GLEIMAN: Indirectly?

1 THE WITNESS: I don't know.

2 CHAIRMAN GLEIMAN: Well, what do you mean by not  
3 directly?

4 THE WITNESS: He has never said a word to me. I  
5 don't know if this came from his direction or not.

6 CHAIRMAN GLEIMAN: You don't know if or you don't  
7 know -- you have no reason to believe that it did?

8 THE WITNESS: I don't know that it did or it  
9 didn't. I just don't know.

10 CHAIRMAN GLEIMAN: Did anyone tell you that the  
11 Postmaster General was in favor of abandoning the previous  
12 Postal Service policy with regard to wage comparability?

13 THE WITNESS: Nobody told me that.

14 CHAIRMAN GLEIMAN: Did Deputy Postmaster General  
15 Nolan, to your knowledge, pass the word down the line that  
16 this policy was to be changed?

17 THE WITNESS: Not to my knowledge.

18 CHAIRMAN GLEIMAN: Did Acting Controller Strasser  
19 direct you to make this change, or do you know whether he  
20 directed someone else to pass this down the line to you?

21 THE WITNESS: I don't know.

22 CHAIRMAN GLEIMAN: Is this change consistent with  
23 Postmaster General Henderson's policy of reducing mail  
24 processing costs by \$700 million annually, as he annunciated  
25 in his Memphis Postal Forum speech this past spring?

1 THE WITNESS: I don't know if it is consistent  
2 with that or not.

3 CHAIRMAN GLEIMAN: Do you know whether Postal  
4 Management intends to abandon the position that Postal wages  
5 exceed the comparability standard in upcoming wage  
6 negotiations?

7 THE WITNESS: I don't know.

8 CHAIRMAN GLEIMAN: Did you inquire from upper  
9 level Management whether it intended to abandon the position  
10 that Postal wages exceed comparability in the upcoming  
11 negotiations?

12 THE WITNESS: No, I didn't.

13 CHAIRMAN GLEIMAN: I think I will pass the baton  
14 right now and let my colleague take a shot at you. He has  
15 got some questions too.

16 COMMISSIONER LeBLANC: Mr. Patelunas, let me jut  
17 follow up on what the Chairman said.

18 Whose decision was it? Did you just arbitrarily  
19 pick the ECI minus 1?

20 THE WITNESS: No, I didn't make the decision --

21 COMMISSIONER LeBLANC: How did it come about?

22 THE WITNESS: Postal Management after reviewing  
23 conditions and trends determined that the ECI assumption was  
24 more appropriate for the test year 2001.

25 COMMISSIONER LeBLANC: With all due respect, the

1 Chairman gave you a list of Postal Management. Who is left?

2 THE WITNESS: I can only refer to this as Postal  
3 Management made the decision. I don't know at what level or  
4 what particular individuals made that decision.

5 COMMISSIONER LeBLANC: But yet you took it on your  
6 own to do it then?

7 If they did not tell you to do it, then you took  
8 it on your own to do it. Somebody either had to tell you to  
9 do it or you took it on your own to do it.

10 Now would you please tell me one way or another  
11 how that happened?

12 THE WITNESS: I was instructed to do it.

13 COMMISSIONER LeBLANC: By who, sir?

14 [Pause.]

15 THE WITNESS: I have to think. It's hard to  
16 remember exactly back to that.

17 COMMISSIONER LeBLANC: Thank you then. That's  
18 good enough then.

19 Let's move on here. In your colloquy with Mr.  
20 Richardson you talked about erratic and one of the things  
21 that fascinated me was, throughout this thing is when you  
22 developed your cost change factors they were based on  
23 updated economic forecasts, as I would appreciate it. This  
24 is kind of a summation -- and that included what was called,  
25 one line item I saw on there was New Break-Through